

21 May 82

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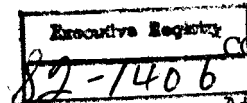
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THE WHITE HOUSE
WASHINGTON



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Attachments

CABINET AFFAIRS STAFFING MEMORANDUM

DATE: 5/19/82 NUMBER: 068967 CA DUE BY:

SUBJECT: Cabinet Council on Economic Affairs -- May 20 Meeting

	ACTION	FYI		ACTION	FYI
ALL CABINET MEMBERS	<input type="checkbox"/>	<input type="checkbox"/>	Baker	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Vice President	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Deaver	<input type="checkbox"/>	<input type="checkbox"/>
State	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Clark	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Treasury	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Darman (<i>For WH Staffing</i>)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Defense	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Harper	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Attorney General	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Jenkins	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Interior	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Gray	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Agriculture	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Larry Kudlow	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Commerce	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Mike Wheeler	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Labor	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
HHS	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
HUD	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Transportation	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Energy	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Counsellor	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
CIA	<input type="checkbox"/>	<input checked="" type="checkbox"/>			
UN	<input type="checkbox"/>	<input type="checkbox"/>			
USTR	<input checked="" type="checkbox"/>	<input type="checkbox"/>			
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CEA	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CCCT/Kass	<input type="checkbox"/>	<input type="checkbox"/>
CEQ	<input type="checkbox"/>	<input type="checkbox"/>	CCEA/Porter	<input checked="" type="checkbox"/>	<input type="checkbox"/>
OSTP	<input type="checkbox"/>	<input type="checkbox"/>	CCFA/Boggs	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	CCHR/Carleson	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	CCLP/Uhlmann	<input type="checkbox"/>	<input type="checkbox"/>
			CCNRE/Boggs	<input type="checkbox"/>	<input type="checkbox"/>

REMARKS: The Cabinet Council on Economic Affairs will meet on Thursday, May 20 (tomorrow), at 8.45 am in the Roosevelt Room. The agenda and papers are attached.

RETURN TO:

☐ Craig L. Fuller
Assistant to the President
for Cabinet Affairs
456-2823

☒ Becky Norton Dunlop
Director, Office of
Cabinet Affairs
456-2800

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THE WHITE HOUSE

WASHINGTON

May 18, 1982

MEMORANDUM FOR THE CABINET COUNCIL ON ECONOMIC AFFAIRS

FROM: ROGER B. PORTER *RBP*

SUBJECT: Agenda and papers for the May 20 Meeting

The agenda and papers for the Thursday, May 20 meeting of the Cabinet Council on Economic Affairs are attached. The meeting is scheduled for 8:45 a.m. in the Roosevelt Room.

The first agenda item is an update on LDC financial problems, focusing on the Mexican and Argentine economic and debt situations. A memorandum from Marc Leland, Assistant Secretary of the Treasury for International Affairs, is attached.

The second agenda item is a review of Polish and Eastern European debt situations. A memorandum, prepared by the Treasury and focusing on the debt situations of Poland, Romania, Hungary, and Yugoslavia, is attached.

The third agenda item is a report on the results of the OECD and IMF/IBRD meetings last week in Europe. Treasury has prepared a briefing paper summarizing the outcome of the meetings that is also attached.

Attachments

THE WHITE HOUSE
WASHINGTON

CABINET COUNCIL ON ECONOMIC AFFAIRS

May 20, 1982

8:45 a.m.

Roosevelt Room

AGENDA

1. LDC Financial Problems (CM#179)
2. Polish and East European Debt (CM#31)
3. Report on OECD Ministerial and IMF Interim Committee Meetings

WASHINGTON, D.C. 20220

MEMORANDUM FOR THE CABINET COUNCIL ON ECONOMIC AFFAIRS

MARC E. LELAND
ASSISTANT SECRETARY
INTERNATIONAL AFFAIRS

SUBJECT: Mexican and Argentine Economic and Debt Situations

The economic situation in Mexico continues to deteriorate. The government is using all available foreign exchange to support the peso. Market perceptions indicate another maxi-devaluation is necessary and may be imminent.

Capital flight is continuing. Reserves have dropped about \$1.5 billion since mid-March to around \$2 billion. On May 13, in an effort to calm the market and discourage capital flight, President Lopez Portillo announced that the "real" value of the peso was about 40 to the dollar (compared to the current rate of about 47 to the dollar) and appealed for Mexicans to stop buying so many dollars. He said that he had ruled out exchange controls, despite the unpatriotic rush to exchange pesos for dollars. His statements appear to have upset, rather than calmed, the market.

In about two weeks the low level of reserves should become public knowledge. The Secretary of Finance and Director General of the Bank of Mexico deliver major addresses on the state of the Mexican economy during the first week of June at an annual Mexican Bankers Convention, and have traditionally announced Mexico's primary and secondary reserves as of the last Friday of May (May 28) in these speeches. Despite Bank of Mexico efforts to artificially and temporarily bolster reserves, we believe that the reserve figures, if announced, will further alarm the market.

Given the current low level of reserves and the continuing high levels of capital flight, it is highly unlikely that the GOM will be able to defend successfully the peso much longer, although it is still trying to do so. Funds from a recent \$1.2 billion Mexican loan are now available and are probably being used by the Bank of Mexico to prop up the peso. By May 24 the GOM may also be able to use commitments under the \$2.5 billion United Mexican States "jumbo" loan currently being negotiated as collateral for short-term borrowing to attempt to prop up reserves and defend the peso.

5/18/88

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- 2 -

Nonetheless, there seems to be no alternative but for the Bank of Mexico to again withdraw from the foreign exchange market. A further significant depreciation might finally stem capital flight, but would also exacerbate the problem of controlling inflation.

4 m The GOM cannot expect to look to the United States Government for a rescue operation. The GOM borrowed \$5 billion (gross) during the ~~first quarter~~ of 1982. Equally large borrowings are necessary for the remainder of the year in order to finance the current account and public sector deficits, to service the debt, to rebuild reserves and to cover capital flight -- unless the Mexicans put in place a major and confidence inspiring adjustment program. Treasury and Federal Reserve swap lines -- available, even under appropriate circumstances, only for short-term financing -- total only \$1 billion (\$300 million and \$700 million, respectively).

The current GOM \$2.5 billion syndication which should be completed by mid-June appears to be going well due to "realistic" spreads of 1 percent and 1 1/2 over LIBOR for 3 and 7 year money, combined with front-end fees of 3/4 percent and 1 percent for the respective tranches. However, the market remains wary of the GOM's management of the economy. Spreads are expected to increase further on future borrowings and could move up quickly as the seriousness of the economic situation becomes known. The market expects explicit evidence of implementation of the April 21 economic program following the July 4 presidential election.

Although Lopez Portillo is adamantly opposed to resorting to the IMF, the GOM has tried to characterize the April measures as a Fund-type program without the Fund. This means that Mexico foregoes IMF financial assistance while the quality of the program remains suspect. Recourse to the IMF may eventually become necessary primarily to provide confidence in the Mexican program, but also significant financing, and may be more palatable after the election. (The GOM could draw up to a maximum of \$4 billion (450% of quota) over 3 years with an approved program. More important would be the favorable effect on private foreign lenders of a Fund-supported program, since the international capital market is the only source of funds sufficiently large to meet Mexico's financing needs. However, it is not clear that the current Mexican program would elicit IMF support; we should have a better assessment in a few days.)

Argentina

As Argentina's confrontation with the U.K. deepens, prospects of debt-service problems by mid-1982 increase sharply. For the moment, as long as short-term credit is renewed, Argentina should be able to stagger along, although refinancing of short-term debt into longer-term maturities is an immediate Argentine objective

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- 3 -

once the crisis is resolved. Such problems could probably be resolved without any adverse implications for international bank lending (and the financial system) generally. However, the magnitude of Argentine foreign debt is large; Argentine failure to service debt payments on schedule could hurt bank profits and cause banks to roll back somewhat from future lending to Argentina, with some possible spillover effect on other LDCs, especially in Latin America.

The nation's trade balance is not expected to be radically altered by the ongoing conflict. Losses of export markets in Europe will probably prove to be temporary, with some lost sales being made up in other markets. Moreover, these losses will probably be offset by reduced imports due to the GOA's recourse to comprehensive foreign exchange controls and new non-tariff barriers to trade.

Most lenders are continuing to attempt to limit themselves to routine disbursements on existing lines of credit. Medium and long-term debt syndications are clearly out of the question for at least the next three months; most likely longer. At this point new short-term lending has essentially dried up, although rollover of existing short-term commercial credits continues, with a few exceptions. A major Argentine objective is continuation of existing short-term exposure levels.

The most recent problems in securing external finance appear to be the result of the GOA's decree on April 30 that all payments abroad require prior approval of the Central Bank. This requirement even applies to irrevocable letters of credit. As a result, many U.S. exporters are finding it impossible to obtain guaranteed letters of credit and some may have suspended shipments as a result. While the Argentine Central Bank is aware of these problems, no rapid solution is in sight.

The failure to make payments on syndicated loans to U.K. creditors is potentially serious and could eventually trigger calls for a declaration of default. Thus far, both U.K. and other creditors are showing forbearance, not seeking to bring about a default situation. Most lenders continue to recognize that a disruption of short-term rollovers to Argentina could force a liquidity crisis that would trigger mounting arrearages and, ultimately, a request for commercial debt rescheduling. Although creditors have been reluctantly willing to roll over these credits, some damage has already been done to Argentina's creditworthiness. If the crisis continues for any length of time, it is likely that the supply of credit available will prove inadequate to cover Argentina's needs. The net result will be a continued loss of reserves for the balance of 1982 with a growing possibility of a commercial debt rescheduling.

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Classified by D.C. Templeman
☒ Declassify ☐ Review for
Declassification on 5/18/88